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Teachers' Pension Plan Board
Ontario
Conseil du régime de retraite des enseignantes et des enseignants

# EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN



## PLAN NOW TO MAXIMIZE TAX SAVINGS

Revenue Canada recently introduced new tax rules for the deductibility of contributions for retirement savings. These rules are particularly important to understand if you're going to be buying credited service or contributing to an RRSP in the next few years.

### What can you deduct?

You can deduct *all* your current year's regular pension contributions. This has been in effect since 1986 and does not change.

For many years, teachers have also been able to deduct an extra $3,500 per year for past service contributions – i.e. payments made to repay a refund or buy credited service for past absences.

After 1994, you may still be able to deduct up to $3,500 per calendar year for pre-1990 absences, but this will vary depending on your individual circumstances (e.g. how much you contributed to the pension plan during the year for which you're buying credited service). If you're buying credit for absences taken *after* 31 December 1989, the amount you can deduct after 1990 will be limited to the amount of room you have in your RRSP contribution limit.

### Instalment interest is deductible

Instalment interest on past purchases of credited service is also deductible. This is retroactive, so if you bought credit by instalment any time from 1986 to 1989, review your receipts along with your tax returns for those years and look for any interest payment marked "non deductible". This is now deductible.

Any instalment interest you haven't already claimed can be carried forward to future years.

### How your pension contributions affect your RRSP room

For the 1990 tax year, most teachers who contributed $3,500 or more to the pension plan won't be able to contribute to an RRSP.

In 1991, the formula for calculating RRSP contribution limits will change. Most full-time teachers who earned between $28,900 and $86,111 in 1990 will be able to contribute $2,821 to an RRSP in 1991.

These are general guidelines; how the new rules will apply to you depends on your particular circumstances. For more detailed information on the new tax rules, consult Revenue Canada's *Pension and RRSP Tax Guide*.

| 1990 earned income | 1991 RRSP room |
|---|---|
| $18,000 | $2,134 |
| 22,000 | 2,386 |
| 26,000 | 2,638 |
| 28,900 to 86,111 | 2,821 |
| 88,000 | 2,481 |
| 92,000 | 1,761 |
| 94,000 | 1,401 |
| 96,226 & over | 1,000 |

This is a general guide for teachers employed on a full-time basis.

### NEW TOLL-FREE NUMBER

**1-800-668-0105**

**We're improving our telephone service to you by adding more lines and by replacing four different numbers with a single toll-free number. Now you can use this number to call us from anywhere in Ontario.**

### 1990

| | |
|---|---|
| RRSP contributions | RRSP eligibility is 20% of 1990 earned income, up to $3,500, minus pension contributions. |
| Pension contributions (for current and past credit) | |

### 1991

| | |
|---|---|
| RRSP contributions | RRSP room is 18% of 1990 earned income, up to $11,500, minus pension adjustment. |
| PA (on 1990 T4) | |

### 1995

| | |
|---|---|
| RRSP contributions | RRSP room is 18% of 1994 earned income, up to $15,500, minus pension adjustment. |
| PA (on 1994 T4) | |

## ESTIMATING THE FUTURE COST OF YOUR PENSIONS

In 1990 the pension board hired the services of William M. Mercer Limited to conduct an independent actuarial valuation of the pension plan. This valuation will:

- determine the unfunded liability (the excess of liabilities over assets) of the pension plan which the Ontario government will pay off over the next 40 years to fully pay for all benefits earned up to the end of 1989;
- set the contribution rate required to fund future benefits.

Effective January 1990, the government set the contribution rate at 8.9 per cent and estimated the unfunded liability to be $4 billion. Depending on the outcome of the valuation, both of these figures could change.

One of the key factors in the process is determining the cost of a fully indexed pension. It's difficult to compare the cost to other plans as very few are fully indexed to inflation.

Some of the assumptions the actuary and the pension board must establish are future returns on investments, inflation rates, and salary increases. The accuracy of these assumptions is extremely important — if the actuaries are off by one per cent, for example, on the future inflation rate, the costs of the pension plan could be off by as much as 12 per cent.

There are several other factors, such as demographic assumptions, to consider as well: Will teachers retire at the 90 factor without a full pension? Will people continue to live longer? Will wage increases continue to be higher than inflation?

We'll let you know the outcome of this important valuation as soon as possible.

## PENSION FUND ENTERS STOCK MARKET

In the last issue of *Exchange*, we announced that the pension board was embarking on its new investment strategy of diversifying into stocks, bonds, mortgages and real estate.

Diversification will help us gain the desired overall long-term rate of return while reducing the risk involved in investing in any one particular market. However, as most of our assets are now in debentures, it will be several years before we achieve what we feel is the right mix of assets.

When deciding on the right mix, we consider factors such as projected rates of return on investments, levels of risk, projected liabilities and the length of time the money can be invested.

For example, to support our fully indexed pension plan, we need to look at investments that yield rates of return above the rate of inflation. Stocks yield relatively high real rates of return in the long term. The pension plan holds many of its assets for long periods of time and can therefore withstand the short-term fluctuations of the stock market. These factors make stocks a desirable choice for a portion of our investments.

### Index funds match market returns

As a first step in this direction, we invested $1.3 billion in index equity funds in 1990. An index fund is a portfolio of stocks that mirrors well-known stock market indices such as the TSE 300 in Canada and the S&P 500 in the United States.

The advantage of index funds is that they match the performance of the market, while administrative costs are relatively low.

### Market value more meaningful

The net assets of the plan at the end of 1990 are estimated at $20.1 billion, up from $17.1 billion in 1989.

About half a billion of this increase is due to a change in the way we measure assets. In 1990 we switched from the cost method to the market value method — the generally accepted method among pension plans.

As well as enabling us to compare the performance of our fund with other pension funds, measuring market values gives us a more accurate picture of the investment opportunities available to the fund.

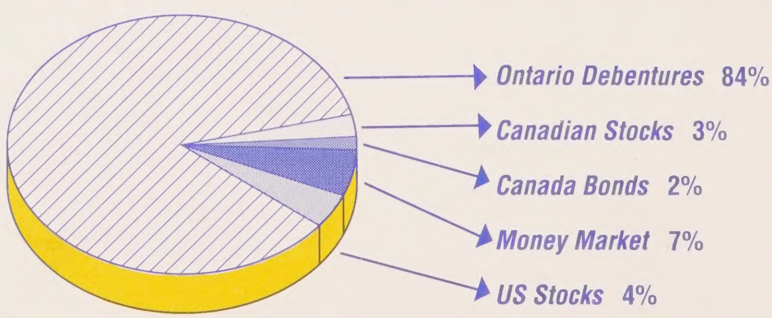
### WHAT WE REALLY MEAN

**Cost** — amount paid for an asset

**Market value** — current value of assets on open market

**Real rate of return** — interest rate minus inflation rate

### ASSET MIX AT 31 DECEMBER 1990



## ASK US A QUESTION

**For the past few years I've worked part time as a guidance counsellor. Will these years be annualized? How does this affect my pension?**

Jo-Anne P., Agincourt

Yes, your years of part-time counselling will be annualized, i.e. each of your part-time years will be "annualized" into full school years. Annualized service recognizes the length of your teaching career and is used to calculate *when* you can retire. The total of the actual time you taught, or your credited service, will be used to calculate *how much* your pension will be.

There are some minimum requirements for annualization. Before 1 September 1990, as long as you taught more than half a day per year, your service was annualized. After 1 September 1990, each year you teach more than 20 days will be annualized.

We see from your file that all your years of part-time counselling meet these criteria and are therefore annualized. Your total annualized service as of 31 December 1989 is 21 years. Your credited service as of this date is 18 years, 5 months and 8 days.

Your higher annualized service will allow you to retire earlier. This is because your 90 factor (the earliest date you can retire with an unreduced pension) is calculated using your age plus your annualized service rather than your credited service. You'll reach your 90 factor on 30 November 2001.

The *amount* of your pension will be based on your credited service: 2% x credited service x best five years' average annualized salary.

You also mention in your letter that you are considering buying credit for a year of maternity leave taken in the 1970s and a year of study leave in the 1980s. If your application is approved and you decide to buy, you'll get two more years' credited and annualized service. This will enable you to retire with an unreduced pension one year earlier and will increase your pension by 4% of your best five years' average salary.

**Should I have a personal interview before I retire?**

Jenny H., Timmins

Not necessarily. We usually suggest you come in only if your situation is particularly complicated — if you're applying for a disability pension, for example. Most questions can be answered over the phone or by listening to Phone-A-Memo.

One of the most commonly asked questions is whether you're eligible to buy credited service for past absences, such as maternity or study leave. We recently mailed you a brochure, "Invest in Your Pension Now", explaining the criteria and procedures for buying credited service, along with a statement showing your history of contributions. Read everything carefully, check off the request form if you need more information or an application form, and then send us your application package as soon as possible.

Remember, to buy under the current rules, you must apply before 31 December 1991. We'll let you know whether your application is approved and, if so, how much it would cost.

If you still feel you need an interview, call us at 1-800-668-0105 and ask to speak to a client services representative.

### CHANGE IN INTEREST RATE

**The standard interest rate for 1990 and 91 is 11.25 %. This is the rate that applies when you pay by instalment for repaying a refund and for certain types of purchases of credited service.**

## REPAY REFUNDS NOW

**Apply by 31 December 1991/93**
**Pay by 31 December 1994**

**If you took a refund of contributions any time in the past, you can increase your pension by repaying those contributions plus interest.**

**Apply by 31 December 1991 if:**

- **you're repaying the refund for the purpose of transferring your pension under a reciprocal agreement;**
- **you taught for more than 20 but fewer than 70 days in one school year after taking the refund.**

**If you miss this deadline, there won't be another opportunity to repay these types of refunds.**

**In all other cases, apply by 31 December 1993; if you apply later, the cost will be actuarial.**

**The payment deadline in all cases is 31 December 1994. However, think carefully about the best time to pay from a tax point of view.**

**The new tax rules mean that, after 1994, you may not be able to deduct the full amount of $3,500 per year currently allowed. Start paying as soon as you can so that you'll have more time to spread out your deductions.**

**There are no forms to fill out. Just call us or write to us saying you want to repay a refund and asking for a calculation of the cost.**

**We are expecting many requests over the next few months, but we'll get back to you as soon as possible. Once you know the cost, all you have to do is send us a cheque.**

## COULD ONE OF THESE BE YOURS?

### PLEASE SEND US YOUR NEW ADDRESS IF YOU MOVE!

Approximately 5,000 annual statements were returned to us because of out-of-date addresses. Since then, we've contacted many of you by telephone or through your school board, but there are still thousands of you we'd like to hear from. If you know anyone who didn't receive this newsletter at home, please ask them to contact us. And remember to send us your new address the next time you move — you can either call Phone-A-Memo at 1-800-387-0945 and leave us a message or send us a Change of Information form. It's the only way we'll know how to reach you!

NAME ______________________________

SIN ______________________________

ADDRESS ______________________________

______________________________

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*Exchange* is a publication prepared by the Ontario Teachers' Pension Plan Board. We welcome your comments on this newsletter and suggestions for future newsletters. Write to us at:

**Communications Department**
**Teachers' Pension Plan Board**
**5650 Yonge Street, Suite 400, North York, Ontario M2M 4H5**

The information contained in this newsletter was accurate at the time of printing. For further reference, please consult the *Teachers' Pension Act, 1989.*

### PERSONAL PLANNING WORKSHOPS

*After the recent tax reform, it is even more important that you develop a personal retirement strategy. Come and talk to a variety of experts at a weekend workshop organized by the Ontario Teachers' Federation. We'll be there to answer your questions about the pension plan.*

*For more information, contact your federation or association.*

| | |
|---|---|
| April 12-13 | Timmins |
| May 10-11 | Thessalon |
| October 4-5 | Windsor |
| October 18-19 | Simcoe |

### PENSION SEMINARS

*Spend an evening with us and listen to a presentation about the pension plan. There will be plenty of time to ask questions and work through examples to help you understand your pension better.*

*For more information, contact your employer.*

| | |
|---|---|
| April 3 | Goderich |
| April 9 | Toronto |
| April 16 | Etobicoke |
| April 24 | Kapuskasing* |
| April 29 | Peel |
| April 30 | Kenora |
| May 15 | Windsor |
| October 9 | Thunder Bay |
| October 23 | London |
| November 5, 6 or 7 | Oshawa |
| November 20 | Ottawa |
| December 4 | Kitchener |

*Separate English and French presentations



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